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AGRICULTURAL CREDIT
AND COOPERATIVE ORGANIZATION

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AGRICULTURAL CREDIT AND COOPERATIVE ORGANIZATION

by
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Part I GENERAL TRENDS

Supply of agricultural credit: Mobilization of funds depends on the ability of the national economy to collect and direct savings to meet consumption and production requirements of the farmers. Obstacles emanating from the nature of agricultural production and from the changing position of the agricultural sector hinder the supply of credit.

Distribution of agricultural credit, is sometimes carried on by the private enterprise, including banks, insurance companies, money lenders, merchants and intermediaries. Cooperative machinery plays an important role. The gap is usually filled in by the state, either through the cooperative organization or by establishing specialized agencies.

Case of under-developed countries: Savings in under-developed countries are inadequate. The necessity for organizing agricultural credit is accentuated by the lack of an organized credit and financial markets. Expatriate banks stand aloof from agricultural finance.

Industrial development draws funds from the agricultural sector especially when such development is handled by the public enterprise.

Social change in developing countries creates new credit problems. Private Banks demand types of collateral not within the reach of the small-scale farmers.

It seems incumbent on the state to face the problem of agricultural credit, short and long term.

The role of cooperative societies: Cooperative Societies were sometimes established in developed countries when the market failed to procure credit at an appropriate cost. Such pattern of classical cooperation does not succeed in under-developed countries. General trends are for compulsory and state-financed cooperation.

PART II

THE U.A.R. PATTERN

Agricultural loans of Real Estate Banks: Important long term financing by Real Estate Banks dwindled since the thirties and almost disappeared since World War II.

Short-term credit before the establishment of the "Crédit Agricole d'Egypte": The Government endeavoured since the 19th century to procure short-term credit to agriculture.

The "Agricultural Bank of Egypt" was set up in 1902 under the auspices of the Government and the "National Bank of Egypt". But the five feddan law of 1913, prohibiting the seizure of properties not exceeding five feddans, paralysed the Agricultural Bank's operations.

" Crédit Agricole et Coopératif" (1): The "Crédit Agricole d'Egypte" was established

(1) The word "Bank" will be used for the "Crédit Agricole et Coopératif".

in July 1931. Government subscription amounted to half of its initial capital. A 5% annual return was guaranteed. When capital was increased in 1948 and the "Bank" was converted into a Bank for cooperatives, it was called upon cooperative societies to subscribe half of this increase. In 1961 the Bank was nationalized.

Types of loans:

- a) Short term credit, for periods not exceeding 14 months. It includes: cash loans to meet cost of planting and harvesting, loans guaranteed by agricultural crops and sale of seeds and fertilizers against future payments.
- b) Loans for periods not exceeding 10 years, against mortgage guarantee, to purchase agricultural machinery and livestock or for land reclamation.
- c) Loans for periods not exceeding twenty years, against mortgage guarantee, for the exploitation and reclamation of land.

The rate of interest was 5% for individuals and 3% for cooperatives. In 1960 it was decided that the Bank's loans bear no interests.

Growth of activities: Total Bank credit increased from £2 m. in 1931/32, to about £37 m. in 1960, mostly in short term credit.

The Bank takes delivery, imports and carries out the distribution of supply goods. Central Bank credits guaranteed by the government for these purposes amounted to £16.8 m. by the end of 1960.

Financing of the Bank: Apart from its capital, reserves and provisions (£4.3 m. end 1960), the Bank had at its disposal, up to 1956, a permanent governmental loan of £6 m. In addition, it retains and uses, funds put at its disposal by the Government for supply operations (£6.7 m. end 1960).

In 1956, the Bank was authorized to issue long term bonds (20/30 years) within the limit of £20 m. (raised to £30 m. in 1961) at an annual interest rate of 3%. The National Bank of Egypt (Central Bank) subscribes to the total of these bonds. Borrowing from the Central Bank against goods and securities amounted to £2.1 m. by the end of 1960. In 1961 bills for three years (£20 m.) discountable with the Central Bank were issued by the Bank and subscribed by the Commercial Banks.

The Bank accepts deposits from cooperatives (£3.7 m. end 1960).

The system of cooperative credit: The Bank was established to offer credit to small landowners and to cooperatives. It was not until 1956, when the cooperative credit system was adopted, that tenants could make use of these facilities. Accordingly, not only credit is granted through cooperatives, but also the system of supervised credit is applied.

PART III
CONCLUDING REMARKS

The following points can be of use for developing countries: (a) A comprehensive survey covering credit needs, facilities and existing resources, including those of money-lenders and merchants, is essential to reorganize agricultural credit.

(b) Since resources of cooperatives are very limited, free classical cooperation seems to be inadequate. New formulas, therefore are to be worked out.

(c) Strict measures are necessary to avoid waste of resources in the processing of agricultural credit. Supervision of credit granted is necessary to secure its proper usage and repayment as designated.